GENERAL FUND ESTIMATED SURPLUS/(DEFICIT)

The Budget Department currently projects a General Fund Deficit of $67.3 million for fiscal year 2004-2005 based on its April 21, 2005 Surplus/Deficit Estimate.

Presented in the exhibit below is a summary of the Budget Department's $67.3 million deficit estimate for fiscal year 2004-2005.

	In Millions		
	Appropriations Surplus/ (Deficit)	Revenue Surplus/ (Deficit)	Net Surplus/ (Deficit)
Total General City and Enterprise Agencies	$ (42.4)	$ (46.6)	$ (89.0)
Vendor Concessions	4.0		4.0
Non-Union Days Off Without Pay (DOWOP)	1.6		1.6
Preliminary Encumbrance Review	6.0		6.0
Miscellaneous Cuts	10.1		10.1
Estimate of Fiscal Year 2004-2005 Deficit	$ (20.7)	$ (46.6)	$ (67.3)

The Office of the Auditor General believes that the Budget Department is overly optimistic in its estimate of the fiscal year's 2004-2005 deficit. As the schedule above shows, without the additional anticipated appropriation surplus from various sources that are not guaranteed to materialize, the deficit estimate would be $89.0 million. The Budget Department did not identify an additional $10.1 million of miscellaneous cuts.

The City Council Fiscal Analysis Division submitted a Status of Appropriations Report to the City Council on April 7, 2005. In that report, the Fiscal Analysis Division estimated the cumulative deficit for fiscal year 2004-2005 to be $160.2 million.

The following schedule summarizes the City Council Fiscal Analyst's calculation:

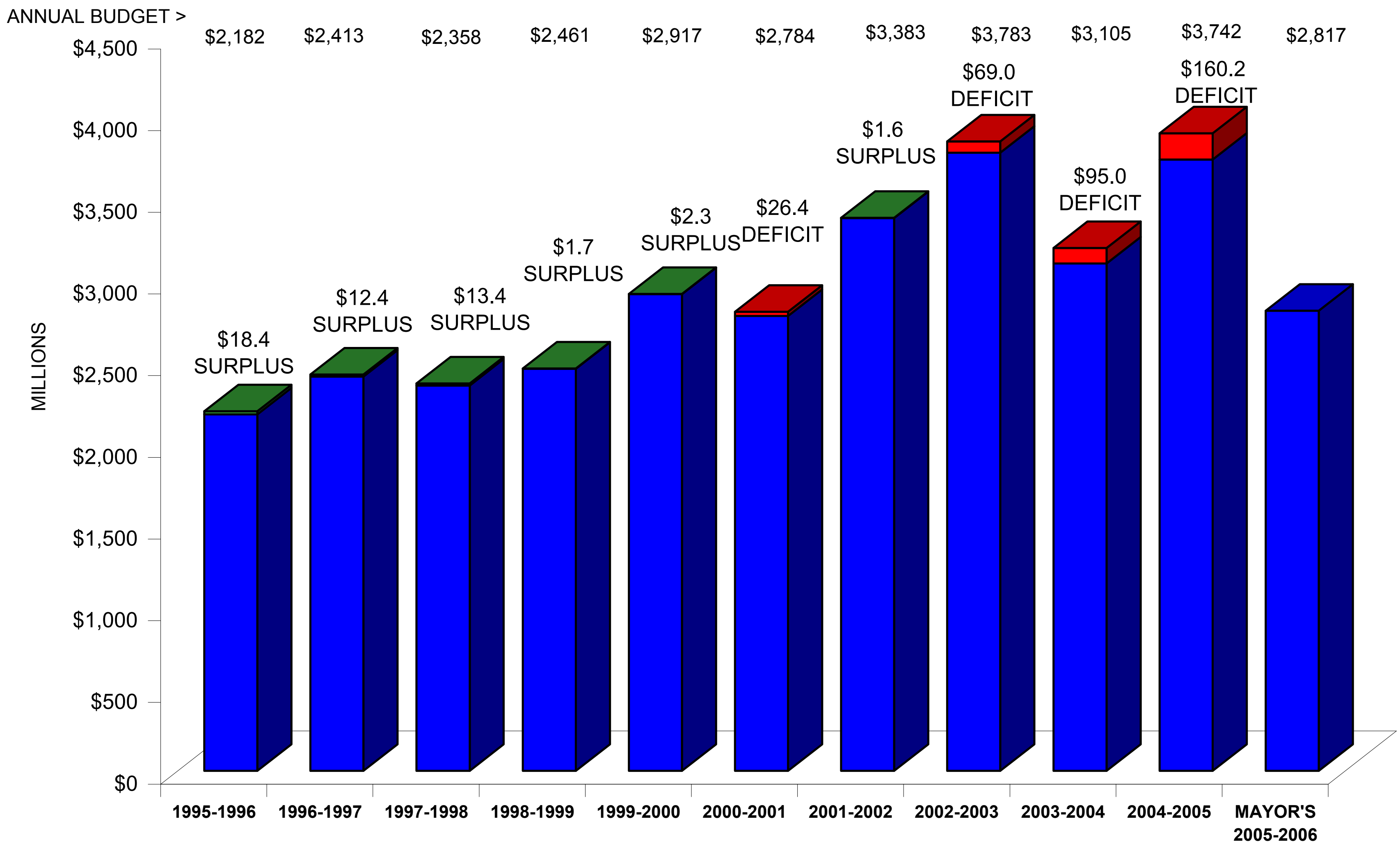
	In Millions	
	Budgeted and Estimated Appropriation and Revenues	Net Estimated Deficit
Budgeted Appropriations	$ 1,658.5	
Less: Annualized Expenditures	1,483.0	
Estimated Appropriations Surplus		$ 175.5
Budgeted Revenues	$ 1,605.5	
Less: Annualized Revenues	1,236.8	
Estimated Revenue Deficit		(368.7)
Estimated Revenue Shortfall		$ (193.2)
Add: Pension Obligation Certificate Sale		80.0
Estimated Deficit Fiscal Year 2004-2005		$ (113.2)
Add: Deficit Carryover from Fiscal Year 2003-2004		(47.0)
Cumulative Net Deficit		$ (160.2)

The $113.2 million deficit was calculated by comparing the difference between annualized expenditures as of March 30, 2005 and budgeted appropriations, which yields an appropriation surplus of $175.5 million. This amount was netted against the difference between annualized revenues and budgeted revenues. The Fiscal Analysis Division's estimate of the City's deficit is based on a more conservative methodology. The Fiscal Analyst's calculation assumes $80.0 million in revenues from the sale of pension obligation certificates.

The measures undertaken to reduce the $95.0 million deficit for fiscal year 2003-2004, such as layoffs, the general obligation bond proceeds of $26.0 million for the 800Mhz project, and the 10.0% cut for non-union employees have only generated savings to cover one-half of the 2003-2004 fiscal year deficit. The Fiscal Analyst estimates there is another $47.0 million remaining. Therefore, the City's estimated cumulative net deficit is $160.2 million.

COMPARATIVE TOTAL FISCAL YEAR BUDGETS

(INCLUDING ACTUAL SURPLUSES and DEFICITS)
(In Millions)



BUDGET STABILIZATION RESERVE FUND

Detroit's Budget Stabilization Reserve Fund, a "rainy day fund," was established by City ordinance in 1979. Section 18-2-57 of the Municipal Code states that one-half of a General Fund surplus for a fiscal year will be included as revenue in the following year's budget and the other one-half of the surplus will be transferred to the Budget Stabilization Reserve Fund. The Budget Stabilization Reserve Fund, accounted for as a reserved portion of the General Fund's fund balance, was established to cover future General Fund deficits, provide funds to restore employees laid off during prior fiscal years, and to cover expenses arising from natural disasters.

The Budget Stabilization Reserve Fund currently has a zero balance. The following table shows the composition of the Budget Stabilization Reserve Fund balance:

	In Millions			
Fiscal Year	Surplus/ (Deficit)	Deposits	Withdrawals	Fund Balance on June 30
1994-1995	$ 20.0			$ 0.0
1995-1996	18.4	$ 10.0		10.0
1996-1997	12.4	9.2		19.2
1997-1998	13.4	6.2		25.4
1998-1999	1.6	6.7		32.1
1999-2000	2.3	0.8		32.9
2000-2001	(26.4)	1.2		34.1
2001-2002	1.6		$ (26.4)	7.7
2002-2003	(69.1)	0.8		8.5
2003-2004	(95.0)		(8.5)	0.0
2004-2005	(160.2) (A)			0.0 (A)

(A) City Council Fiscal Analyst's Estimate of fiscal year 2004-2005 deficit

The Budget Stabilization Reserve Fund balance is projected to have a zero balance as of June 30, 2005. We do not anticipate that funds will be deposited into the Budget Stabilization Fund for the 2005-2006 fiscal year.

The Budget Department's City of Detroit Fiscal Year 2004-05 Surplus/Deficit Estimate, as reported April 21, 2005, indicates that the fiscal year 2004-2005 deficit will be $67.3 million. On April 7, 2005, the City Council's Fiscal Analyst estimated the 2004-2005 fiscal year deficit at $113.2 million, and a remaining $47.0 million deficit carry over from fiscal year 2003-2004. In our opinion the Fiscal Analyst's estimate is a more reasonable reflection of the City's deficit position.

RISK MANAGEMENT FUND

The Risk Management Fund is a self-insurance fund established by City Ordinance (Ord. No. 16-95) in 1995 to cover liability to third parties for any loss or damage arising out of negligence, tort, contract or otherwise accruing, payable by the City from and after July 1, 1994. The City may be liable under Workers' Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury, in accordance with applicable law.

The Risk Management Fund premium included in the Mayor's 2005-2006 Proposed Budget is compared to the 2004-2005 Budget in the following schedule:

	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Average Five Year Payout – General Fund and Transportation	$ 60.7	$ 61.5	$ (.8)
Anticipated Risk Management Cost Savings	(12.5)	0.0	(12.5)
Net Premium before Earnings and Debt Service	$ 48.2	$ 61.5	$ (13.3)
Earnings on Investments	(0.3)	(0.4)	0.1
Debt Service	21.4	4.0	17.4
Annual Premium	$ 69.3	$ 65.1	$ 4.2

Current Year Premium

Risk Management Fund revenues are premiums from the General Fund and Detroit Department of Transportation (DDOT), earnings from the investment of fund assets, and reimbursements from the State.

The calculation of the Risk Management Fund premium in the Mayor's 2005-2006 Proposed Budget does not follow the methodology used in the past. Historically, the amount of the annual claims premium has been based on a five-year running average of actual payouts for damage claims and lawsuits. The five-year historical average for the General Fund and the Department of Transportation is $60.7 million as shown above. The Mayor's Proposed Budget includes a $12.5 million deduction from the five-year average payout due to the City's expected fiscal year 2005-2006 savings from hiring an outside agency to help the City reduce its exposure to future claims and judgments. The Budget Department was unable to provide information concerning the proposed contractor or how the cost savings of $12.5 million was calculated. Reducing the risk management premium for future savings is a change in the methodology used to calculate the premium. We disagree with the departure from the historical methodology of basing the risk management fund premium calculation exclusively on a five-year running average of actual payouts on damage claims and lawsuits.

Fund Balance
In 1995, pursuant to the Ordinance and Bond Resolution, the City issued $100.0 million in self-insurance bonds. The proceeds were deposited in the Risk Management Fund to cover claim and lawsuit payments. City Ordinance requires that the fund balance not fall below $20.0 million. The following table shows the actual expenditures, revenues, excess or deficiency of revenues, and fund balance of the Risk Management Fund for fiscal years 1994-1995 through 2003-2004 (the most recently completed fiscal year), and an estimate for the 2004-2005 and 2005-2006 fiscal years.

		In Millions			
Fiscal Year		Revenue	Claims Expenditures	Excess/Deficiency of Revenues	Fund Balance
Beginning Balance					$ 100.0
1994-1995		$ 11.3	$ 48.8	$ (37.5)	62.5
1995-1996		56.9	57.8	(0.9)	61.6
1996-1997		59.2	52.8	6.4	68.0
1997-1998		50.0	55.6	(5.6)	62.4
1998-1999		53.2	74.0	(20.8)	41.6
1999-2000		56.3	61.8	(5.5)	36.1
2000-2001		60.4	51.7	8.7	44.8
2001-2002		60.9	54.0	6.9	51.7
2002-2003		59.0	60.3	(1.3)	50.4
2003-2004		60.1	75.5	(15.4)	35.0
2004-2005	(A)	61.1	70.5	(9.4)	25.6
2005-2006	(B)	47.9	N/A	N/A	
Total		$ 636.3	$ 662.8	$ (74.4)	

(A) For fiscal year 2004-2005, revenue represents the budget amount. The claim expenditures have been annualized based on actual expenditures of the first nine months of fiscal year 2004-2005.

(B) The proposed budget amount is the only figure available for fiscal year 2005-2006

As reflected in the table above, claim expenditures exceeded fund revenues by $15.4 million in fiscal year 2003-2004 causing the balance of the Risk Management Fund to decrease to an all time low of $35.0 million on June 30, 2004. The balance of the fund is $15.0 million above the minimum required balance of $20 million. If the Mayor's cost savings projection of $12.5 million does not materialize and claim expenditures exceed revenues in fiscal year 2004-2005 as they did in fiscal year 2003-2004, the Risk Management Fund balance could fall below the minimum requirement and additional City funding would be required.

Debt Service
In fiscal year 2003-2004, the City issued an additional $98.9 million in self-insurance bonds primarily to fund the fiscal year 2003-2004 Risk Management Fund premium, and to refinance the remaining balance of the original $100 million self-insurance bond issue. Financing the claims premium, a current operating expenditure, with long-term debt was to be a one-time occurrence. However, in fiscal year 2004-2005 the City again issued $62.3 million in self-insurance bonds to cover the annual premium amount for claims and litigation.

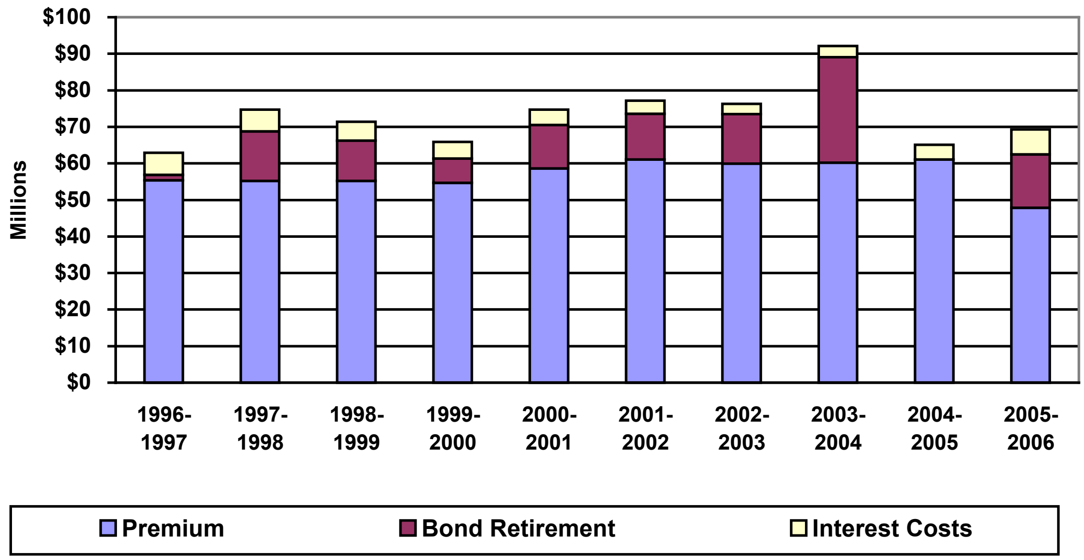
The table below shows the Budget Department's calculation of the annual premium for each of the ten fiscal years, from fiscal years1996-1997 through 2005-2006, for claims and lawsuits against the City related to General Fund agencies and DDOT, and debt service (bond principal and interest) on the self-insurance bonds.

Fiscal Year		General Fund	DDOT	Total Premiums	Net Bond Retire-ments	Bond & Interest Costs	Total Debt Service	Total Budgeted Appropria-tions
1996-1997		$ 45.0	$ 10.4	$ 55.4	$ 1.5	$ 6.0	$ 7.5	$ 62.9
1997-1998		45.2	10.0	55.2	13.6	5.9	19.5	74.7
1998-1999		45.7	9.5	55.2	11.0	5.2	16.2	71.4
1999-2000		45.4	9.3	54.7	6.6	4.6	11.2	65.9
2000-2001		46.6	12.0	58.6	11.9	4.2	16.1	74.7
2001-2002		48.6	12.5	61.1	12.5	3.6	16.1	77.2
2002-2003		47.9	12.0	59.9	13.6	2.8	16.4	76.3
2003-2004		46.3	13.9	60.2	28.9	3.0	31.9	92.1
2004-2005		47.3	13.8	61.1	0.0	4.0	4.0	65.1
2005-2006	(A)	36.6	11.3	47.9	14.6	6.8	21.4	69.3
Ten Year Total		$454.6	$114.7	$569.3	$114.2	$46.1	$160.3	$729.6

(A) The $36.6 million represents the Mayor's 2005-2006 Proposed Budget for the Risk Management Fund, which includes a $12.5 million deduction for potential future savings.

As shown in the table above, over the past ten years, the total Risk Management Fund appropriations for both premiums and debt service have ranged from a low of $62.9 million in fiscal year 1996-1997 to a high of $92.1 million in fiscal year 2003-2004. The fiscal year 2003-2004 appropriation included the retirement of the $28.9 million remaining balance of the 1995 self-insurance bond issue, which was rolled into the 2003 bond issue. Debt service has added $160.3 million to the risk management expense over the past ten years, an average of $16.0 million per year. The average budgeted claims premium payment was $56.9 million during this ten-year period.

The following chart illustrates the trend in the risk management fund premium, bond retirement, and the interest costs the City has incurred, or expects to incur due to the debt service.



The current balances of the 2003 and the 2004 self-insurance bond issues are $98.9 million and $62.3 million respectively, for a total of $161.2 million. Each of these bond issues mature over a ten-year period and should be paid off in fiscal years 2012-2013 and 2013-2014, respectively. The estimated annual average cost of debt service on the 2003 bond issue and the 2004 bond issue combined is $21.1 million over a period of ten years.

Future Liabilities
The estimated total liability of the Risk Management Fund included in the June 30, 2004 Comprehensive Annual Financial Report was $187.3 million. The current portion of this liability, payable within one year, was estimated at $8.8 million, while the long-term portion of the liability was estimated at $178.5 million. The total liability reflects an increase of $8.5 million from the prior year estimate of $178.8 million. The average estimated total liability of the Risk Management Fund over the past 10 years was $188.4 million.

Conclusion

Based on our analysis of the Risk Management Fund, we note these concerns:

- The Mayor's budgeted 2005-2006 Risk Management Fund premium includes an aggressive approach that immediately recognizes the $12.5 million in projected cost savings in fiscal year 2005-2006. Immediate recognition of the $12.5 million cost savings is contrary to the methodology that has been used in the past to calculate the Risk Management Fund premium. The Risk Management Fund should be funded at $81.8 million for fiscal year 2005-2006, the level based on historical payouts and actual debt service.
- Claim expenditures exceeded the premium by $15.4 million in fiscal year 2003-2004 causing the Risk Management Fund balance to drop to $35.0 million, $15.0 million above the required minimum. Reduced funding and a high level of future liabilities may result in the fund balance falling below the $20.0 million minimum legal balance, which will require the City to increase its funding level.
- The estimated total liability of the Risk Management Fund as of June 30, 2004 was $187.3 million, up $8.5 million from the prior year. The average total liability of the Risk Management Fund over the past ten years was $188.4 million, just $1.1 million over the current total liability. This indicates that the City has not made any progress in reducing the causes of damage, liability and workers' compensation claims against the City.
- The estimated annual average cost of debt service on the 2003 bond issue and the 2004 bond issue combined is $21.1 million over a period of ten years.

DEPARTMENT OF TRANSPORTATION

The following schedule compares the 2005-2006 Mayor's Proposed Budget appropriations and revenues for the Detroit Department of Transportation (DDOT) operations, including the Detroit Transportation Corporation (DTC - "People Mover"), to the fiscal year 2004-2005 Budget:

	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Appropriations:			
DDOT Operations	$ 118.5	$ 148.8	$ (30.3)
DTC Support	6.2	7.7	(1.5)
Claims Fund	14.7	14.7	-
Capital Improvements – Bonds DTC	10.0	-	10.0
Total Appropriations	$ 149.4	$ 171.2	$ (21.8)
Revenues:			
State Operating Assistance	$ 45.6	$ 58.1	$ (12.5)
Farebox Revenue	24.5	27.2	(2.7)
General Fund Contribution to DDOT	56.5	71.6	(15.1)
General Fund Contribution to DTC	6.2	7.7	(1.5)
Other Operating Revenue	0.8	0.8	-
Claims Fund Revenue	5.8	5.8	-
Sale of G.O Bonds	10.0	-	10.0
Total Revenues	$ 149.4	$ 171.2	$ (21.8)

The 2005-2006 Mayor's Proposed Budget is $21.8 million less than the 2004-2005 Budget mainly due to a budgeted $30.3 million reduction in DDOT operating costs. Budgeted operating costs were reduced as a result of the following actions and planned organizational changes:

- Driver layoffs and transfers to other departments;
- Reduced driver overtime;
- Accounting Division layoffs and transfers to other departments; and
- DDOT transfer to DARTA (Detroit Area Regional Transportation Authority).

The budgeted reduction in operating costs stems, in part, from the decrease in State Operating Assistance and General Fund Contribution to DDOT by $12.5 million and $15.1 million, respectively. Also contributing to the reduction in State Operating Assistance was the 5.1% reduction in the State's reimbursement percentage for eligible expenses. Farebox revenue is expected to decrease $2.7 million due to reductions in service partially offset by revenues from the reinstatement of the $0.75 fare for disabled riders.

Transfer of DDOT Management to DARTA

The 2005-2006 Mayor's Proposed Budget includes plans to transfer the management of DDOT to DARTA. The City of Detroit, expects in the long term, that its General Fund will bear less of the burden for mass transit, consistent with all other metropolitan areas in the United States. Cost savings included in the proposed budget for this transfer include $10.0 million of salary, wages and fringe benefits. According to a Budget Department representative, the transfer is expected to take place by December 31, 2005. Early media responses by the Oakland and Macomb County Executives, indicate resistance to supporting this plan, especially if it requires County funding. In our opinion, it is unlikely that the City will be able to accomplish the transfer of DDOT management to DARTA by December 31, 2005 or the end of 2005-2006 and achieve the $10.0 million budgeted savings.

State Operating Assistance

Public Act 51 of 1951 restricts State Operating Assistance for urban public transit agencies, with a population greater than 100,000, to an amount up to 50.0% of their eligible operating expenses, as defined by the State of Michigan Department of Transportation. An eligible expense reimbursement formula is used to compute the amount of operating assistance that urban transit agencies receive from the State. An adjusted amount of eligible expenses is multiplied by a percentage, determined by the State, to calculate the amount of the distribution to transit agencies. According to the formula, the DDOT receives 65.0% and the Suburban Mobility Authority for Regional Transportation (SMART) receives 35.0% of the total distribution amount allocated to DDOT and SMART.

The State cut fiscal year 2004-2005 appropriations for State Operating Assistance, for passenger transportation services to the general public due to reductions in State tax revenues, including legislatively mandated reductions in the contributions of the sales tax to the Comprehensive Transportation Fund. As a result, the fiscal year 2004-2005 program reflects program reductions.

The Michigan Department of Transportation (MDOT) was unable to provide us with the State Operating Assistance for DDOT for the State's fiscal year 2004-2005, October 2004 through September 2005, because the Regional Transit Coordinating Council (RTCC) had not determined the distribution for DDOT, SMART, DTC, and other local recipients. The preliminary distribution shows that, for the first time, the DTC would be receiving State Operating Assistance. Since MDOT's State Operating Assistance is a fixed amount, the addition of the DTC will reduce the amount other eligible transportation agencies, such as DDOT, will receive. The formula for the distribution of State Operating Assistance for the region has remained unchanged for many years with most of the funding going to DDOT and SMART. The traditional 65/35 split between DDOT and SMART could be changed by the RTCC and affect the amount of State Operating Assistance DDOT receives for fiscal year 2005-2006. The 2005-2006 Mayor's Proposed Budget assumes that DDOT will continue to receive 65.0% of the State Operating Assistance allocated to DDOT and SMART.

We computed the State's fiscal year 2004-2005 State Operating Assistance for DDOT using the fiscal year 2003-2004 formula applied to the fiscal year 2004-2005 data supplied by the State. Based on our computation for the State's fiscal year 2004-2005, the State Operating Assistance will cover $54.6 million of DDOT's $166.7 million Eligible Operating Expenses.

The remaining $112.1 million is the Local Share, to be covered through DDOT revenues and the General Fund Subsidy.

The budgeted State Operating Assistance in the Mayor's 2005-2006 Proposed Budget is $45.6 million or a $12.5 million decrease from the $58.1 million budgeted in 2004-2005. The decrease is mainly attributable to reduced DDOT operating expenditures and to a 5.1% reduction in the State reimbursement rate, which accounted for $7.3 million of the decrease. The State Operating Assistance supports approximately 34.2% of DDOT's budgeted operations and claims fund expenditures. The DDOT estimate of State Operating Assistance in fiscal year 2005-2006 may increase if planned cost reductions do not occur.

Farebox Revenue
Budgeted farebox revenue is approximately $24.5 million for fiscal year 2005-2006, a decrease of approximately $2.7 million or 9.9% from the fiscal year 2004-2005 budget. DDOT actual operating revenues, including farebox revenue, was $24.7 million in fiscal year 2003-2004, a $0.5 million decrease from fiscal year 2002-2003. In the 2005-2006 Mayor's Proposed Budget, a schedule of Transportation Measures and Targets shows the number of passengers is projected to decline from 39.7 million in fiscal year 2003-2004 to 36.0 million in fiscal year 2004-2005. The target for fiscal year 2005-2006 is 34.0 million passengers.

The Mayor's 2005-2006 Proposed Budget includes an additional $3.0 million in farebox revenue based on the anticipated revenue from the reinstatement of the $0.75 charge to disabled persons riding the buses. The $3.0 million is optimistic considering that DDOT's revenue calculation projected 6 million disabled riders or 17.6% of the 34 million passengers projected for fiscal year 2005-2006. Also, the disabled rider fare was proposed for the 2004-2005 budget with projected revenue of $2.0 million. In the past, it was believed that fare increases should result in more revenue. However, it has been noted that fare increases have discouraged ridership and revenue has not increased as anticipated. In our opinion, the farebox revenue in the 2005-2006 Mayor's Proposed Budget is slightly optimistic based on past history.

General Fund Contribution - DDOT
The budgeted General Fund Contribution (Subsidy) to DDOT is $56.5 million for fiscal year 2005-2006. This General Fund contribution to DDOT represents a $15.1 million, or 21.1%, decrease from the previous year's budgeted amount of $71.6 million. The fiscal year 2005-2006 General Fund Subsidy decrease is due to the reduction of operating expenditures. This includes employee layoffs and transfers to other departments.

The City's Deficit Elimination Plan sent to the Treasurer of the State of Michigan included a plan to eliminate DDOT's unrestricted net asset deficit of $14.0 million at June 30, 2004 before the end of 2005-2006. The plan called for an increased contribution of $5.5 million from the General Fund to DDOT in fiscal year 2005-2006 along with other measures in fiscal year 2004-2005 to eliminate the deficit. The 2005-2006 Mayor's Proposed Budget does not include any additional contribution to eliminate the DDOT deficit. Consequently, the 2005-2006 Mayor's Proposed DDOT General Fund contribution is understated.

Proposed Layoffs
There are 151 DDOT employees included in the Mayor's layoffs for fiscal year 2005-2006. This represents 8.8% of the 1,716 DDOT positions budgeted for fiscal year 2004-2005. A total of 140 bus drivers are being laid off, which represent 13.3% of the 1,055 drivers budgeted for fiscal year 2004-2005.

Position Changes

The 2005-2006 Mayor's Proposed Budget eliminates a net of 182 positions. This includes the following:

Position	Layoff	Transfer	Added	Totals
Senior Accountant	2			2
Accountant I	1			1
Money Handler		3		3
Manager I - Transportation	2			2
Principal Clerk	1			1
Officer Asst III		1		1
Elec. Equip. Repair Worker		2		2
Transportation Station Workers	1	2		3
Transportation Equipment Operators	140	48		188
Transportation District Superintendent		1		1
Asst. Transportation District Supervisor	4			4
Transportation Emergency Dispatcher		1		1
Sr. Trans Services Insp.		4		4
Sr. Social Plan and Dev Spec.		1		1
Total Reductions	151	63		214
Coach Service Attendant Reinstated			(32)	(32)
Net Reductions	151	63	(32)	182

Bus drivers are the most significant reduction with most of the other reductions in the Accounting and Transportation Operations Divisions. A total of 32 coach service attendants were added back to the 2005-2006 Mayor's Proposed Budget after 73 were eliminated in fiscal year 2004-2005.

Employee Turnover Savings

Employee Turnover Savings is the amount expected to be saved due to temporarily vacant positions. There are no Employee Turnover Savings for DDOT included in the 2005-2006 Mayor's Proposed Budget. The Budget includes a net total of 182 employee layoffs and transfers to other departments for DDOT. The number of vacant positions is expected to be reduced because of the high number of layoffs for fiscal years 2004-2005 and 2005-2006.

Overtime

The amount of overtime included in the 2005-2006 Mayor's Proposed Budget is $9.5 million compared to $12.7 million budgeted in fiscal year 2004-2005, a decrease of $3.2 million or 25.2%. DDOT actual overtime for fiscal years 2003-2004 and 2002-2003, per the City's Budget reports, totaled $21.4 million and $21.0 million, respectively. The DDOT overtime for fiscal year 2004-2005 through March 31, 2005 (nine months) was $13.7 million or $1.0 million more than the total overtime budgeted for the entire fiscal year. We project that DDOT total overtime for fiscal year 2004-2005 will be $18.3 million if the amount of overtime continues at the same rate over the next three months. A DDOT representative informed us that DDOT is modifying the scheduling for drivers to reduce built in overtime. The 121 new coaches expected for fiscal years 2004-2005 and 2005-2006 will reduce maintenance requirements for wheel chair lifts and contribute to reducing maintenance overtime. The reductions in overtime are optimistic considering the large number of layoffs and demands for bus service.

Vehicle Maintenance Expenses
The 2005-2006 Mayor's Proposed Budget for the DDOT Vehicle Maintenance Division is $34.8 million, a $1.9 million increase from the $32.9 million in the fiscal year 2004-2005 Budget. The increase is mainly attributable to the reinstatement of 32 Coach Service Attendant positions that were cut from the current year's budget.

Maintenance costs should be reduced, especially considering the addition of 121 new buses that will correct problems with maintaining wheel chair lifts. DDOT also receives over $10.0 million in grant funding for preventative maintenance that should reduce vehicle maintenance costs to the City. DDOT attributes part of the problem of reducing maintenance costs to the effective resistance of the mechanics union to any reductions in personnel.

A performance audit of the DDOT dated June 2001 noted: "Almost all functions at DDOT conspire to increase the cost of maintenance. From the lack of planning, to parts availability problems, to vehicle usage patterns, DDOT compromises its ability to adequately maintain the vehicle fleet in a cost effective manner. Also, to compound the problem, the maintenance function itself did not appear to be efficient or effective."

Wheelchair Lifts
The State is currently withholding approximately $1.0 million per month from the DDOT in operating assistance because the DDOT is not in compliance with an Americans with Disabilities Act (ADA) requirement for maintaining vehicles with operable wheelchair lifts. A DDOT representative told us they could lose a total of $6.8 million if they are not in compliance by the end of the fiscal year 2004-2005.

Net Operating Losses

The pattern of the DDOT's net operating losses is well documented, as are the public policy reasons underlying continued subsidies to transit operations. The following schedule details the DDOT actual and expected net operating losses over recent years. The data for this schedule was obtained from the City's Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 1999 through June 30, 2004, Budget Department data for fiscal year ending June 30, 2005, and the Mayor's Proposed Budget for 2005-2006.

	In Millions			
Period	Operating Revenue (A)	Operating Expense (B)	Net Operating Loss	Transfers from the General Fund
1998-1999	$ 31.4	$ 160.6	$ 129.2	$ 51.0
1999-2000	29.0	172.6	143.6	60.2
2000-2001	25.1	187.1	162.0	74.2
2001-2002	24.1	187.4	163.3	79.4
2002-2003	25.2	196.2	171.0	75.5
2003-2004	24.7	206.6	181.9	74.3
2004-2005 (C)	27.9	163.5	135.6	71.6
2005-2006 (D)	25.3	133.2	107.9	56.5

(A) Operating revenue consists primarily of farebox revenue.
(B) Budgeted operating expenses do not include the General Fund contribution for operation of the People Mover, and the Capital Improvement Bonds in fiscal years 2004-2005 and 2005-2006.
(C) Estimated
(D) Proposed

The preceding schedule clearly shows a trend of declining operating revenue and increasing operating expenses over the past six fiscal years, for which actual data is available. Net operating expenses increased $46.0 million or 28.6% over the past six fiscal years. Net operating losses increased $52.7 million or 40.8% during the same period. Net operating losses should be reduced in fiscal years 2004-2005 and 2005-2006 because of layoffs and other cost reduction efforts; however, the budget estimates for revenues and expenditures are overly optimistic.

Conclusion

Based on our analysis, the budgeted revenues and appropriations included in the 2005-2006 Mayor's Proposed Budget for DDOT are not reasonable. Farebox revenues are overstated. Based on past history, operating expenses, including overtime, are understated. If the transfer of the DDOT management to DARTA does not take place as planned by January 2006, then DDOT's operating expenses will be significantly higher than budgeted, requiring additional General Fund support.

DETROIT TRANSPORTATION CORPORATION
(PEOPLE MOVER)

The Detroit Transportation Corporation is owner and operator of the Detroit People Mover. For fiscal year 2005-2006, the City has budgeted $6.2 million to the Detroit Transportation Corporation (DTC), in the form of a General Fund Subsidy. The detailed budget for the DTC is not incorporated in the City's budget. The following schedule compares the DTC summary budget for fiscal years 2005-2006 and 2004-2005. The budget figures were provided to us by DTC.

	In Millions		
	2005-2006 Budget	2004-2005 Budget	Increase (Decrease)
Revenues:			
Operating Revenues:			
Fare Gate Revenue	$ 0.4	$ 0.4	$ 0.0
Pass Sales & Token Sales	0.4	0.4	0.0
Total Operating Revenues	$ 0.8	$ 0.8	$ 0.0
Non-Operating Revenues:			
FTA Grant Revenue	$ 1.3	$ 3.6	$ (2.3)
Act 51 MDOT Operating Assistance Revenue	3.0	-	3.0
Miscellaneous	0.3	0.5	(0.2)
Total Non-Operating Revenue	$ 4.6	$ 4.1	$ 0.5
Total Revenues	$ 5.4	$ 4.9	$ 0.5
Expenses:			
Operating Expenses:			
Salaries & Benefits	$ 7.1	$ 6.4	$ 0.7
Maintenance & Renovations	1.9	1.5	0.4
Other Operating Expenses	11.1	11.0	0.1
Total Operating Expenses	$ 20.1	$ 18.9	$ 1.2
Operating Deficit	$ (14.7)	$ (14.0)	$ (0.7)
Other Revenue/Expenses	8.5	6.3	2.2
City Subsidy	$ 6.2	$ 7.7	$ (1.5)

The $6.2 million subsidy in the 2005-2006 Mayor's Proposed Budget represents 30.8% of the total funding necessary to operate the People Mover, compared to 40.7% in the prior year. Changes in budgeted Revenues and Expenditures are detailed on the next page.

Federal Transit Administration (FTA) Grant
The FTA Grant is expected to decrease from $3.6 million to $1.3 million. The DTC stated this category is a conglomeration of many small grants. As of April 20, 2005, the DTC had not provided a breakdown of the grants in this category.

Act 51 MDOT Operating Assistance Revenue
The DTC will receive $3.0 million from the Michigan Department of Transportation (MDOT) for fiscal year 2005-2006. The DTC will use the funds for general operations. This is the first time DTC has applied for these funds. In the past, MDOT allocated available funds between the Detroit Department of Transportation (DDOT) and the Suburban Mobility Authority for Regional Transportation (SMART) in a 65/35 split.

DTC Subsidy
The DTC is partially funded by grants from the City. The budgeted subsidy to the DTC is $6.2 million for fiscal year 2005-2006, a decrease of $1.5 million from the 2004-2005 budget. Based upon the estimated ridership of 1,580,000, the cost of the budgeted subsidy is $3.94 for each $0.50 ride.

General Obligation Bonds
For fiscal year 2005-2006, the DTC is budgeted to receive $10.0 million from the City's sale of General Obligation Bonds. The DTC will use the proceeds from the bond sale for vehicle mid-life overhaul ($9.6 million) and for replacement of station escalators and elevators ($0.4 million).

DDOT Separation
The DTC is not included in the City of Detroit's planned transition of DDOT to the Detroit Area Regional Transportation Authority (DARTA) in fiscal year 2005-2006.